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Deputy Prime Minister and Minister of Finance

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Dear Mr Mazzaferro,

thank you for your letter of 10 July 2019 notifying the Ministry of Finance of the Czech Republic that the General Board of the ESRB has adopted the Warning of the ESRB of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in the Czech Republic (Recommendation ESRB/2019/10), following its recent European Economic Area-wide assessment of vulnerabilities relating to residential real estate.

Let me emphasise that the Ministry of Finance welcomes the extensive work of the ESRB to analyse and assess vulnerabilities that could cause risks to the financial stability in the EEA member states.

As regards the ESRB findings concerning the Czech Republic residential real estate sector, the warning states that the main vulnerabilities are the high overvaluation of house prices coupled with the high growth in housing credit and loose lending standards, against the backdrop of the non-legally binding nature of the borrower-based measures currently available and in place.

Although the Ministry of Finance agrees with the assessment that house prices are currently overvalued in the Czech Republic, a statement that they are highly overvalued may give rise to unfounded and undesirable notions of a possible upcoming price collapse with negative consequences thereof. As it is stated in the warning, according to the Czech National Bank (CNB), the house prices were overvalued by 10 to 15 % in the second half of 2018. According to our opinion, such overvaluation does not necessarily involve major risks. Besides, the rise in property prices has been supported by supply-constraining factors that are likely to subside in the medium term. Nevertheless, economic policy of the Czech authorities is paying attention to these issues, as has been reflected in the recommendations of the CNB (as the financial stability authority), in the Macroeconomic Forecasts of the Ministry of Finance (which has consistently identified the fast growth in housing loans and house prices as a macroeconomic risk since July 2016), and in the present legislative process that follows the direction as recommended by the ESRB.

According to the ESRB assessment, it is important that national authorities in the Czech Republic have legally binding borrower-based measures at their disposal to provide them with the necessary powers to address potential financial stability vulnerabilities, including, in particular, powers to set legally binding limits to loan-to value ratios – and to either debt-to-income ratios or debt-service-to-income ratios, in combination with maturity limits – where necessary in relation to new housing loans. According to the ESRB view, only legally binding borrower-based measures would ensure that all credit providers, irrespective of their type or whether they are domestic or foreign, comply fully with the measures in place.

The current measures taken by the CNB (recommendations on the limits of loan-to-value, debt-to-income, and debt-service-to-income ratios) are not legally binding, however the banking sector has generally complied with them, though with some delay. Nevertheless, the Czech government is of the opinion that legally binding macroprudential measures are needed to ensure their effectiveness, especially a full compliance through enforceability and a full coverage of all housing loans providers. Therefore, the Czech government has already responded to this issue and submitted a bill to the Chamber of Deputies of the Parliament of the Czech Republic in June 2019. The act amending the Act on the CNB, if passed, will grant necessary powers to the CNB as the macroprudential authority to set legally binding limits regarding new housing loans for residential purposes. This legislative measure is fully in line with the recommendation given in the ESRB assessment.

The Ministry of Finance, in a close cooperation with the CNB, will continue to closely monitor the developments in the Czech residential real estate sector, especially in connection with financial stability.

Yours sincerely,



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